

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS ELECTRIC)	
CORPORATION TO ASSESS A SURCHARGE)	
UNDER KRS 278.183 TO RECOVER COSTS OF)	CASE NO. 94-032
COMPLIANCE WITH ENVIRONMENTAL)	
REQUIREMENTS OF THE CLEAN AIR ACT)	

O R D E R

On June 19, 1995, Big Rivers Electric Corporation ("Big Rivers") filed a motion for clarification of the accounting methodology to be used for its environmental surcharge. Big Rivers claims that clarification is necessary because during a January 31, 1995 informal conference, representatives of the Kentucky Industrial Utility Customers, Inc. ("KIUC") advocated an accounting methodology which would be contrary to the Commission's August 31, 1994 Order and the proper interpretation of KRS 278.183.

Big Rivers specifically contends that it should be allowed to increase the accumulated provision for depreciation in the 1992 base period in making its monthly surcharge calculations. It claims this, its original proposal, was adopted in the Commission's August 31, 1994 Order, even though the reporting forms accompanying the Order did not clearly reflect this decision. Big Rivers requests that the Commission approve either (1) its "base current" methodology, (2) an alternative methodology described in the motion for clarification, or (3) the "incremental" methodology approved for Kentucky Utilities Company. Big Rivers also requests approval

of its proposed accounting methodology for the two-year review and modification of the monthly reporting formats attached to the August 31, 1994 Order.

KIUC strongly opposes Big Rivers' request, characterizing it as an attempt to relitigate matters that have already been decided. KIUC further notes that Big Rivers has not presented any valid economic reasons to change the August 31, 1994 Order. KIUC states that contrary to Big Rivers' claims, its original surcharge proposal did not provide for the on-going depreciation of the 1992 baseline capital costs and that Big Rivers has overstated the cost recovery differences in its comparison of the original decision and the proposed clarification. Finally, KIUC states the Commission should not now decide how the surcharge will be incorporated into base rates during the two-year review. The Attorney General filed comments in support of KIUC on September 11, 1995.

In its reply, Big Rivers argues that KIUC's proposed accounting methodology is illegal and could not have been the methodology the Commission intended to be used. It argues that KIUC's response demonstrates a lack of understanding of the operation of the approved surcharge and that it is not requesting an advisory opinion concerning the two-year review, but only a clarification so that it may fully recover its environmental costs.

KIUC responded to Big Rivers' reply on September 21, 1995 disputing Big Rivers' statement that it had agreed that the existing surcharge methodology does not provide full recovery of environmental costs.

COMMENTARY

The August 31, 1994 Order approved Big Rivers' use of the "base/current" approach for the surcharge mechanism. This approach compares the environmental revenue requirements for a defined base period with those for the current reporting period. Using this approach, the revenue requirement for the base period reflects the environmental compliance costs included in existing rates. The base period revenue requirement is a fixed amount as of a specific point in time, which is subject to modification at the first two-year review. Subsequent variations in environmental costs from the level included in the base period are reflected in the current period and recovered through the monthly surcharge. Reducing the base period revenue requirement as proposed by Big Rivers while adjusting for cost variations in the current period revenue requirement would result in double recovery of fixed costs on amounts which are included in existing rates.

Big Rivers proposed and the Commission accepted the twelve months ending December 31, 1992 as the base period. Through the formats in Appendix B to the August 31, 1994 Order, the Commission provided the specific calculations needed to determine the monthly environmental revenue requirements for the current periods. The formats also reflect that the base period revenue requirement is a fixed portion of eligible costs already in existing rates which does not change. Subtracting the base period revenue requirement from the current period revenue requirement establishes the level of eligible environmental compliance costs not already included in

existing rates. This is the level of cost recovery provided under KRS 278.183(2), no more and no less.

CONCLUSIONS

Big Rivers' motion does more than request a clarification of accounting methodology. It raises issues which should have been raised on rehearing. Even if Big Rivers' June 19, 1995 motion had been for rehearing, it would not be timely filed.

Nor would changing to the "incremental" approach for the surcharge increase its recovery. As Big Rivers has sought recovery for all of its compliance activity, it would collect the same revenues regardless of whether it used the approved "base/current" or "incremental" approach.

Big Rivers' total environmental compliance costs will be recovered either through existing base rates or the surcharge. Big Rivers proposed, and the Commission accepted, the concept that the level of environmental compliance costs for the twelve months ended December 31, 1992 would be considered recovered through existing rates. To the degree that the current level of environmental compliance costs exceed those already included in existing rates, Big Rivers will be eligible to recover the difference through the surcharge.

The formats prescribed in the Commission's August 31, 1994 Order provided the specifics for the calculation of both the base period and current period revenue requirements. The formats were and are consistent with the surcharge mechanism approved for Big Rivers. The prescribed formats reflect the fixed, existing rate

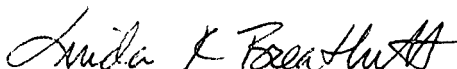
characteristics present in the base period revenue requirement calculations.

Under KRS 278.183(3), the Commission will incorporate the appropriate surcharge amounts found just and reasonable into Big Rivers' existing base rates during the two-year review. Any attempt at this time to prescribe exactly how that will be done would be premature.

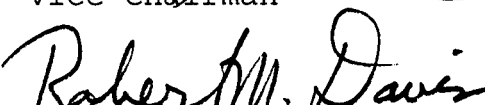
IT IS THEREFORE ORDERED that Big Rivers' motion for clarification be and hereby is denied.

Done at Frankfort, Kentucky, this 5th day of February, 1996.


PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director